



**Report to Congress on**  
**End-Use Monitoring of Defense Articles and Defense Services**  
**22 USC 2785(c): End-Use Monitoring of Defense Articles and Defense Services**

This report summarizes the Department of State’s administration of the Blue Lantern end-use monitoring program for FY 2021. The Blue Lantern program fulfills requirements stipulated in section 40A of the Arms Export Control Act (AECA) (22 U.S.C. 2785) and delegated to the Department of State in Executive Order 13637 (March 8, 2013).<sup>1</sup> The program monitors the end-use of defense articles, technical data, and defense services exported through commercial channels, as well as brokering activities, and subject to Department of State licenses or other approvals under section 38 of the AECA and the International Traffic in Arms Regulations (ITAR) (22 CFR Parts 120-130), which implement section 38 of the AECA. The Blue Lantern program is managed by the Country and End-Use Analysis Division (CEA), Office of Defense Trade Controls Policy, Directorate of Defense Trade Controls (DDTC), Bureau of Political-Military Affairs.

The Blue Lantern program’s mission is to help ensure the security and integrity of U.S. defense trade. The program is designed to minimize the risk of diversion and unauthorized use of U.S. defense articles, combat gray arms trafficking, uncover violations of the AECA, and build confidence and cooperation among defense trade partners.

Blue Lantern end-use monitoring includes pre-license, post-license/pre-shipment, and post-shipment checks to verify the *bona fides* of foreign consignees and end-users, confirm the legitimacy of proposed transactions, and to the extent possible, provide “reasonable assurance that –

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<sup>1</sup> Section 40A(c) of the AECA, requires the annual submission to Congress of a report describing actions taken to implement the end-use monitoring of defense articles and defense services exported abroad, including a detailed accounting of the costs and number of personnel associated with the monitoring program and the numbers, range, and finding of end-use monitoring of U.S. transfers of small arms and light weapons. The end-use monitoring program for transfers made pursuant to direct commercial sales is commonly known as the “Blue Lantern” program.

- (i) the recipient is complying with the requirements imposed by the United States government with respect to use, transfers, and security of defense articles and defense services; and
- (ii) such articles and services are being used for the purposes for which they are provided.”<sup>2</sup>

In FY 2021, six Department of State full-time employees and four contractors in CEA managed the Blue Lantern program, among other duties, at a total cost of \$1,800,000. End-use checks are largely conducted by U.S. embassy personnel, who reported an estimated cost of more than \$25,747 for inquiries closed in FY 2021. Due to the pandemic, CEA requested virtual end-use checks such as by requiring photographic evidence of serial numbers and control measures, which reduced some of the expenses normally associated with Blue Lantern checks. In FY 2021, CEA’s Blue Lantern Post Support Program, which facilitates end-use monitoring efforts by funding in-country travel costs associated with in-person site visits or end-use monitoring training, did not expend funds as the COVID pandemic hindered such travel. In the few cases where posts did conduct in-person site visits, they did not request funds from the Blue Lantern Post Support Program. Furthermore, all trainings CEA conducted in FY 2021 were virtual engagements with no associated expenses.

In addition to conducting end-use checks, the Department also expended more than \$63,000 in FY 2021 on a collaborative project with the Foreign Service Institute (FSI) to roll out a first-of-its-kind distance learning course on the Blue Lantern program. The course debuted in January 2022. The online course, which provides comprehensive guidance on implementing the Blue Lantern program, is available to all Department employees, contractors, and Locally Employed staff supporting the Blue Lantern program. Those staff charged with executing end-use checks are strongly encouraged to complete the course annually. CEA plans to collaborate with FSI to ensure the course is reviewed regularly and updated as needed.

#### Blue Lantern End-Use Inquiries Initiated in FY 2021

In FY 2021, DDTC approved 19,125 export authorization requests. CEA initiated Blue Lantern checks on 281 export authorizations or authorization requests (62 pre-license checks, 164 post-shipment checks, and 55 checks that involved both pre-license and post-shipment elements) in more than 70 countries, generally in line with FY 2020 figures. Blue Lantern checks in FY 2021 were performed on approximately one percent of the license applications approved in FY 2021. Figures 1 and 2

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<sup>2</sup> Section 40A(a)(2)(B) of the AECA, 22 U.S.C. 2785(a)(2)(B).

illustrate the regional distribution of export authorizations and Blue Lantern inquiries, respectively.<sup>3</sup> Note that several Blue Lantern checks not only reviewed specific transactions but also analyzed the management structure and security controls of foreign companies that may pose a risk of diversion due to their acquisition by another foreign entity, bearing on dozens of licenses and agreements per entity.

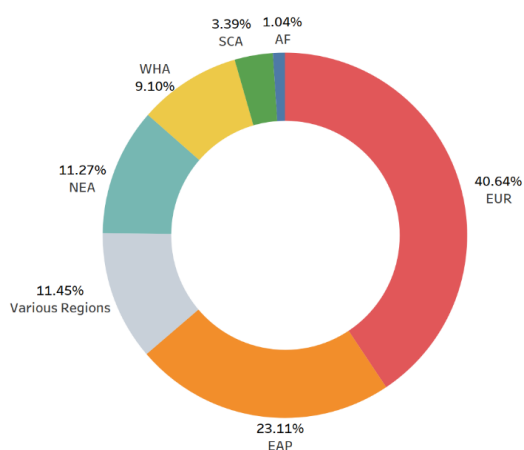


Figure 1 – FY 2021 DCS Authorizations by Region

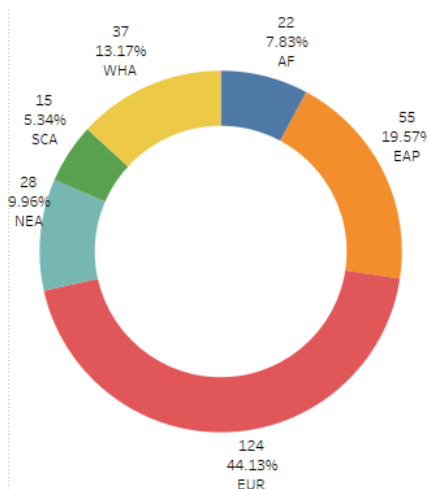


Figure 2 – FY 2021 Blue Lantern Checks Requested by Region

### Blue Lantern End-Use Inquiries Closed in FY 2021

CEA closed 256 Blue Lantern checks in FY 2021, an increase of more than 38 percent from FY 2020. Figure 3 illustrates the number of Blue Lantern cases closed, by region. Of these, 175 (68 percent) reported “favorable” results. These favorable checks verified defense articles were received and secured by authorized end-users, confirmed the bona fides of parties (primarily foreign intermediaries), and enhanced the parties’ understanding of U.S. export laws and regulations.

Additionally, CEA closed four cases as “no action,” as the relevant embassies were unable to complete a Blue Lantern check due to logistical challenges or other factors that did not necessarily indicate derogatory information on, or a lack of cooperation from, the foreign party. In those cases involving a pre-license check, CEA relied on other available information to make a recommendation on the disposition of the

<sup>3</sup> The regions are based on the areas of responsibility of State Department regional bureaus: AF for African Affairs (Sub-Saharan), EAP for East Asian and Pacific Affairs, EUR for European and Eurasian Affairs, NEA for Near Eastern Affairs (North Africa and the Middle East), SCA for South and Central Asian Affairs, and WHA for Western Hemisphere Affairs.

license application. In those cases involving a post-shipment check, CEA employed other sources of information to gain confidence the export did not present a risk of diversion or scheduled a follow-up check on the same parties. In all four instances, CEA concluded there was no evidence that an unauthorized retransfer or re-export of defense articles had occurred.

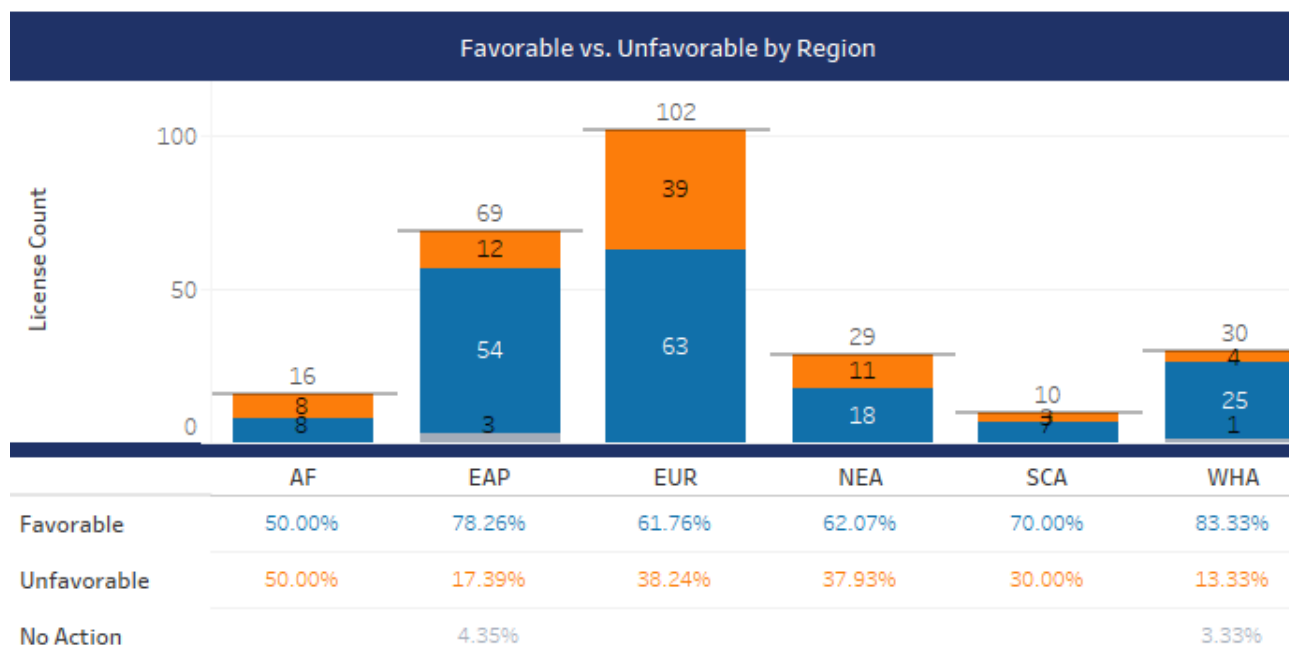


Figure 3 – Checks Closed in FY 2021 by Region

### Unfavorable Checks in FY 2021

CEA closed 77 cases (or 30 percent of all closed cases) as “unfavorable” in FY 2021. This finding applies to cases where the findings of fact are inconsistent with information in the license application or where certain information could not be verified. Common reasons for closing cases as “unfavorable” included the unresponsiveness of a foreign party or the identification of discrepancies between the information the foreign party provided and what was authorized in the license.

FY 2021 unfavorable findings were in line with the average rate of unfavorable outcomes for the past five fiscal years (30 percent). Blue Lantern checks are selected based on several risk factors, including unfamiliar foreign parties, sensitivity of the technology involved in the transaction, and unusual shipping patterns. Because the selection process is risk-based, transactions targeted for closer scrutiny are more likely to result in unfavorable findings than a random sampling of license applications.

Figure 4 depicts the various reasons checks were closed as unfavorable. Because a case may be designated “unfavorable” for more than one reason, the cumulative total for this table exceeds the total number of unfavorable cases recorded for the year. In FY 2021, the leading cause of an unfavorable finding was ***derogatory information/foreign party deemed unreliable recipient of USML*** (21 checks), meaning the check generated information calling into question the foreign party’s ability to comply with the ITAR. The second most common reason for an unfavorable check was ***refusal to cooperate*** (29 checks), where the foreign party failed to provide a comprehensive response in a timely manner. The third most common reason was ***unlicensed party*** (11 checks), where the check detected the participation of an entity not listed on the license or authorization request. For FY 2021, CEA documented no instance of ***indications of potential or actual diversion*** (i.e., involving intentional actions to change end-use or end-user for nefarious purposes) and four instances of ***unauthorized re-exports/retransfers*** (i.e., poor compliance arising from a misunderstanding of, or lack of sufficient training in, the ITAR).

<b>Derogatory information/unreliable foreign party</b>	<b>47</b>
<b>Refusal to cooperate</b>	<b>29</b>
<b>Unlicensed party</b>	<b>11</b>
<b>Lack of secure storage facilities</b>	<b>8</b>
<b>Unable to confirm order or receipt of goods</b>	<b>7</b>
<b>Unauthorized reexport/retransfer</b>	<b>4</b>
<b>Other</b>	<b>12</b>

Figure 4 – Reasons for Unfavorable Results and Number of Instances (FY 2021)<sup>4</sup>

Unfavorable Blue Lantern cases resulted in several types of actions, including returning without action or denying license applications, removing parties from licenses, updating the DDTC Watch List, or referring cases to DDTC’s Office of Defense Trade Controls Compliance (DTCC) (CEA referred four unfavorable Blue Lantern checks to DTCC) and/or U.S. law enforcement agencies for appropriate civil and/or criminal enforcement investigation and action. Blue Lantern checks and DDTC Watch List screening led CEA to recommend removal of an entity on 177 license applications.

#### Regional Distribution of Unfavorable Cases in FY 2021

Nearly 38 percent of all checks conducted in the **NEA** region in FY 2021 were closed as unfavorable. Unlike in the two fiscal years prior to this reporting period, the main reasons for the unfavorable checks were lack of proper storage facilities and the identification of foreign parties not named in the authorization requests rather than derogatory information on the foreign party. The **EUR** region also saw 38 percent of checks closed as unfavorable, primarily due to derogatory information on, or lack of full cooperation

<sup>4</sup> Multiple reasons may be associated with a single case.

from, the foreign party. The unfavorable rate for the **WHA** region was 13 percent due to a range of reasons such as derogatory information on the foreign party and presence of parties not named on licenses; this region also included a single instance of unauthorized temporary retransfer due to the party's lack of education on ITAR requirements. The unfavorable rate for the **EAP** region was 17 percent, with the most frequent reasons being the identification of active parties not listed on licenses or license applications and unauthorized changes in end-use. Finally, the unfavorable rates in the **AF** and **SCA** regions were 50 and 30 percent, respectively, with the main reason in both regions being the inability or unwillingness of foreign parties to respond in a timely manner. CEA has targeted those parties that were the subjects of unfavorable checks for outreach or additional end-use inquiries.

### Blue Lantern Checks on Firearms Closed in FY 2021

Of the 256 Blue Lantern checks closed by CEA in FY 2021, 66 cases involved U.S. Munitions List (USML) Category I (Firearms). Twenty-four of these cases were closed as unfavorable. Figure 5 depicts the regional breakdown of firearms cases. The unfavorable rate for checks involving USML Category I articles (36 percent) was higher than the rate of unfavorable cases involving all USML categories (30 percent) for FY 2021. The higher unfavorable rate for Blue Lantern checks on licenses for USML Category I articles in FY 2021 is due to CEA closing as unfavorable a single Blue Lantern case involving multiple transactions.

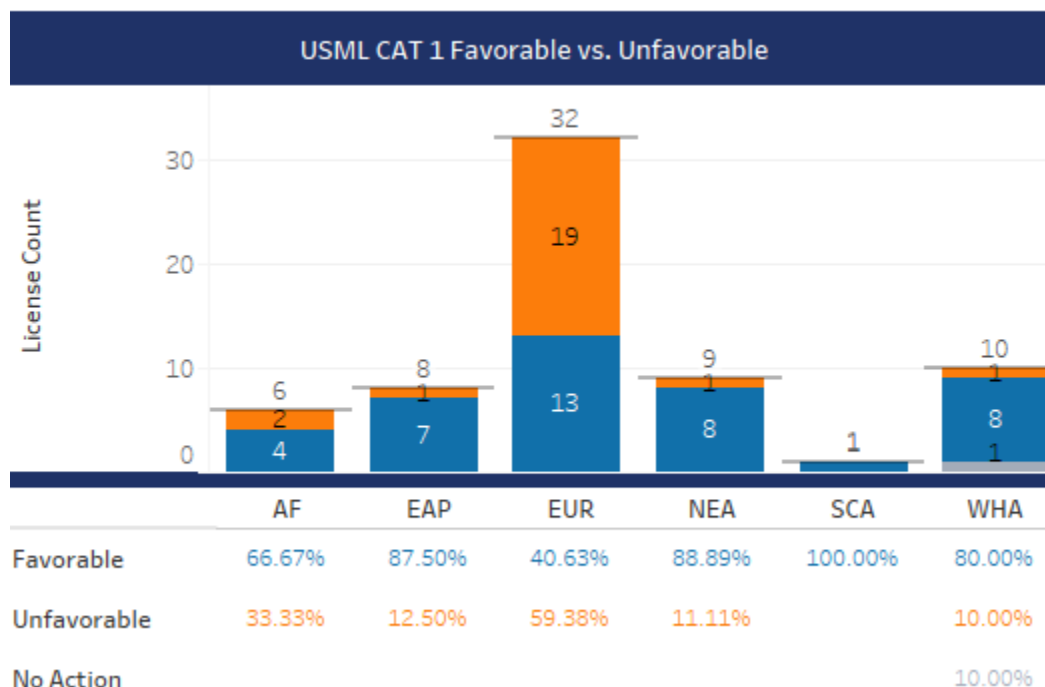


Figure 5: Checks Closed by Region (USML Category I)

## DDTC Watch List

In FY 2021 CEA reviewed 72,472 DDTC Watch List name matches or “hits” (including false hits) and made 1,487 new entries and 1,889 modifications to the DDTC Watch List. DDTC’s Watch List is an internal screening tool containing more than 224,500 entities, ranging from entities that require further review to restricted or denied parties. CEA uses this database to flag export authorization applications for possible Blue Lantern checks. Since FY 2020, CEA has systematically shared the DDTC Watch List with the Department of Commerce’s Bureau of Industry and Security. This sharing improves Commerce’s ability to regulate items it controls, especially those items formerly controlled on the USML.